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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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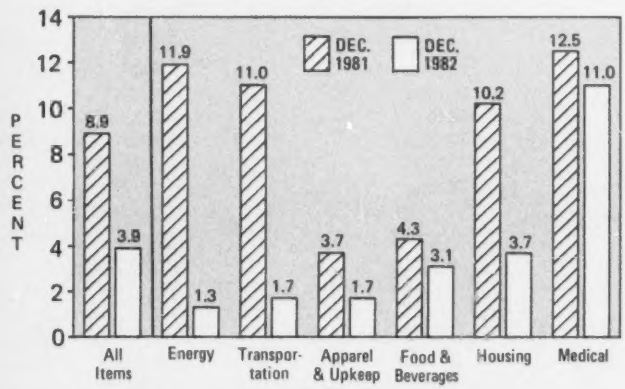
Inflation Is In Remission . . .

In a year when so much went wrong with the economy, one thing did go right in 1982. At the cost of the unemployment rate rising to the highest level in more than 40 years, housing starts plunging to a 35-year low, factories leaving the largest chunks of capacity idle since records began and more businesses failing than at any time since the Great Depression, rates of consumer (CPI) and producer (PPI) inflation retreated to their lowest levels in well over a decade.

CONSUMER PRICE INDEX AND SELECTED COMPONENTS
(PERCENT CHANGE FROM A YEAR AGO)



The moderation in the CPI in 1982 was particularly noteworthy. At yearend, prices of consumer goods were only 3.9 per cent higher than in December, 1981, posting the slowest annual increase since 1967, when prices advanced by 3.2 per cent. (The years 1971 and 1972 are excluded from this comparison because prices were artificially depressed by wage and price controls.)

. . . Improving Across The Board

Importantly, every major category within the CPI showed improvement last year compared with 1981 (see chart). The greatest progress took place in energy, where overall prices rose 1.3 per cent in December, year-over-year—the smallest rise since 1964—down from the 11.9 per cent rise posted in 1981. However, this improvement could have been even greater were it not for the 25.4 per cent year-over-year hike in natural gas prices and the 6.4 per cent jump in the cost of electricity. However, motorists enjoyed a 6.7 per cent decline in gasoline prices over the year, while homeowners paid almost two cents less per gallon of heating oil than they did in December, 1981.

What is more, the inability of the OPEC members to agree on production limits and pricing at their January 23-24 meeting in Geneva sets the stage for further oil price declines in 1983. As a result of the persistent oversupply of petroleum, spot oil prices, which reflect the actual supply-demand balance in world markets, have dropped well below the $34 per barrel "official" price and are currently less than $30 per barrel.

This situation is not likely to be remedied soon. Many OPEC producers have locked themselves into development programs based on expectations of ever-rising prices of petroleum and thus cannot afford to cut back production. In fact, most OPEC members want to export as much as possible, and are willing to continue to sell oil at substantially less than the official price in order to generate sufficient revenues. Saudi Arabia, on the other hand, is already operating at less than one half its available capacity. In 1982, when OPEC production declined by an estimated 18 per cent, Saudi Arabia's curtailment was responsible for 80 per cent of the total drop.

But This Good News . . .

Getting back to price trends, there were more favorable developments for consumers last year. In addition to lower heating oil costs, new homeowners

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benefited from a 12.5 per cent decline in mortgage interest rates (measured by the CPI), which slowed the rise of the cost of owning a home to 3.7 per cent in December, year-over-year, down from a 10.2 per cent pace the year before. Furthermore, the advance in the cost of apparel abated to less than half that of a year ago, as many hard-pressed merchants were forced to slash prices of most merchandise to move out inventories. Various rebates and interest subsidies on automobiles, lower prices of gasoline and the slower rise in the cost of public transit have resulted in a 1.7 per cent increase in the overall cost of transportation, compared with a jump of 11 per cent in 1981. Even the cost of medical care rose at a slower pace, albeit still remaining in double digits.

. . . May Not Last Long

But the battle against inflation is not over yet. There are potential dangers which could eventually rekindle it. Already the recent increase in the pace of business has pushed up prices of many industrial commodities. For example, the modest rebound in housing activity has led to a sharp rebound in lumber prices (Financial Digest—January 24, 1983). Prices of sheathing plywood have risen by almost 30

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/19/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.441	+ .622	+10.483
Loans to Depository Inst.	.467	+ .040	− .484
Float	1.821	− 1.141	− 4.977
Total Reserve Bank Credit	158.043	+ .039	+ 5.767
Treasury Deposits with Federal Reserve Banks	3.115	+ .200	− .597
Currency Outside Banks	134.731	− 1.832	+ 9.600
Member Bank Reserves:			
Required	42.468	+ 1.544	− 1.831
Excess (Deficiency)	.594	+ .120	+ .061
Total Reserves Held	43.062	+ 1.664	− 1.770
Net Free Reserves	.270	+ .059	+ .423
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.215	+ 1.147	+14.785
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	483.5	+ 13.8‡	+ 7.6‡
M2 (December '82)	1,999.1	+ 9.0	+ 9.7
M3 (December '82)	2,403.7	+ 6.7	+ 9.9
L (August '82)	2,858.2	+ 12.1	+ 11.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 1/28/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.00%	8.25%	8.50%
* Federal Agencies	7.90	8.40	8.80
* Project Notes—Taxfree (46% Taxable Equivalent)	7.78	8.43	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.75	9.25

‡Finance Company Paper—Prime

5- 14 days	8.13%
15- 29 days	8.13
30- 59 days	8.25
60- 89 days	8.25
90-179 days	8.25
180-239 days	8.00
240-270 days	8.00

‡* Bankers' Acceptances

Feb.	8.25%
Mar.	8.25
Apr.	8.30
May	8.35
Jun.	8.45
Jul.	8.45

‡Industrial Paper—Prime

30- 89 days	8.25%
90-120 days	8.25

†Federal Funds Effective Rate 8.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,472	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	− 2.5	0.7	− 5.3
Change in Consumer Prices (all urban consumers)*	Dec '82	− 3.6%	1.2%	4.8%
Change in Producer Prices*	Dec '82	1.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Dec '82	99,093	99,136	99,677
Unemployment as % of Civilian Labor Force†	Dec '82	10.8%	10.7%	8.6%
Personal Income*	Dec '82	$ 2,637	$ 2,621	$ 2,498
Leading Indicators Composite Index (1967=100)†	Dec '82n	132.8	130.8	127.1
Industrial Production Index (1967=100) †	Dec '82	134.7	134.8	143.4
Net Change in Consumer Installment Credit†	Nov '82	$ 2.52	−$ 0.32	$ 0.60
U.S. Merchandise Trade Balance †	Dec '82n	−$ 3.37	−$ 4.09	−$ 1.81
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Dec '82	1,222	1,404	882
New Construction Expenditures*	Nov '82	$ 237.2	$ 229.1	$ 230.0
Total Business Inventories†	Nov '82	$ 508.6	$ 514.2	$ 521.6
Total Business Sales†	Nov '82	$ 336.4	$ 332.5	$ 344.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

per cent since last July and many homebuilders report that it is now in short supply. The price of copper has gone up ten cents per pound or 15 per cent in the past two months. Importantly, steel prices have risen by almost $15 per ton or nearly 30 per cent since reaching their lows in November.

Over the longer run, the combination of large Federal budget deficits and the rapid acceleration of money supply growth in recent months will add to inflation pressures, too. Since the Fed eased the monetary reins last July, M1 has risen at a seasonally adjusted annual rate of 12.6 per cent. In the year's final quarter, the rate of rise was a steep 16.1 per cent! To be sure, deposit innovations and regulatory changes contributed to the fast pace of M1 growth, but so did Federal Reserve policy actions. And while it may have been initially necessary to get the economy back on track, now that the pace of business has begun to improve, rapid money supply growth must slow soon, lest it ultimately reignite inflation psychology, in the form of higher long-term interest rates. This would choke off the fledgling housing recovery—not to mention depressing business spending on capital goods even more than it already is.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/12/83)	124,466	– 1,874	– 8,232
New York City (1/12/83)	33,699	+ 372	+ 934
Commercial Paper (1/12/83)	165,383	– 265	+ 284*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/12/83)	217,206	– 2,216	+21,729
New York City (1/12/83)	60,988	– 522	+ 5,734

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/12/83)	505,231	– 4,393	+32,780
New York City (1/12/83)	118,256	– 1,030	+ 7,922

Financial Markets

	Friday 1/28/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Billst	8.27%	– .03	– 5.13
180-Day Billst	8.52	+ .07	– 5.28
Longest Billst	8.82	+ .02	– 5.38
Recent Issues:			
9¼s 1/31/85	9.48	+ .01	
10s 12/31/86	10.04	+ .04	
10½s 11/15/92	10.70	+ .15	
10⅜s 11/15/12	10.85	+ .06	
Municipals:			
Bond Buyer–20 Bond Index* (1/27/83)	9.66%	+ .18	– 3.49
Blue List Total ($ Million)	$1,089	– $ 21	+ $287
30-Day Visible Supply ($ Million)	$1,799	+ $334	+ $414
Total	$2,888	+ $313	+ $701
Corporates:			
Moody's Aa Composite (1/27/83)	12.48%	+ .23	– 3.31
30-Day Visible Supply ($ Million) ‡	$640	+ $245	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,064.75	+ 11.77	+ 193.65
Transportation	460.37	+ 11.59	+ 104.23
Utilities	123.62	– 1.43	+ 16.11
65 Stocks	418.31	+ 5.07	+ 79.08
Standard and Poor's 500 Stocks	144.51	+ .66	+ 24.11
N.Y.S.E. Composite Index	83.35	+ .17	+ 13.96
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,526	+ 2,746	+ 28,788

* 46% Taxable equivalent 17.89%.
‡Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/28/83	Week Ago
Overnight	8.63%	8.50%
1 month	9.00	8.81
3 month	9.25	8.88
6 month	9.38	9.06
1 year	9.75	9.25

EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.80%	11.60%
Long Term (7 to 15 yrs.)	11.90	11.70

FOREIGN EXCHANGE SPOT RATES New York Opening (1/28/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02093	47.78
Canada	.8093	1.2357
Denmark	.1169	8.5575
France	.1446	6.9150
Germany	.4101	2.4383
Italy	.0007121	1404.30
Japan	.004222	236.83
Mexico	.006711	149.00
Netherlands	.3733	2.6785
Switzerland	.5013	1.9948
U.K.	1.5360	.6510

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